369 Pine Street, Suite 300, San Francisco, CA 94104 Ph: 415-433-6804 Fax: 415-433-6805

Federally Assisted Multifamily Housing
Inventory and Risk Assessment

This inventory consists of federally assisted developments that either: a) have project-based Section 8 rental assistance or b) were financed under federal mortgage programs with rental restrictions (HUD Section 221(d)(3) or Section 236 or Farmer's Home Section 515) and are eligible to prepay those loans. Please note that most of this information comes from a HUD database. In our experience it is about 90% accurate, so there might be a few projects missing or incomplete.

INVENTORY

The **types of projects** covered in this inventory include the following:

Section 8: Section 8 is a rent-subsidy program in which tenants pay 30% of their income and HUD pays the difference up to the contract rent amount. All of the Section 8 listed in this inventory is project-based – attached to the specific project – rather than vouchers, which move with the individual tenant. Many of the HUD assisted mortgage programs (Section 236, Section 221(d)(3), Section 202, Section 811) and Farmer's Home Section 515 program have project-based Section 8 in addition to the assisted mortgage. Other projects have project-based Section 8 with financing that does not carry low-income restrictions (whether HUD-insured or not). Project-based Section 8 contracts originally carried terms of up to 20 years, except for those financed by the California Housing Finance Agency, which had terms of 30 years. Project-based Section 8 contracts started to expire in 1997. They can now be renewed for one, five, ten or twenty year terms. However the renewals are subject to annual appropriations by Congress.

Section 221(d)(3): This program, started in 1961, provided HUD mortgage insurance with a subsidized interest rate of 3%. Loans were for 40 years and were could be prepaid in 20 years. Most of these loans were restructured under the Title II and Title VI preservation programs in the early 1990's.

Section 236: This mortgage insurance program began in 1968, providing 40 year loans that could be prepaid in 20 years. HUD provides an Interest Reduction Payment (IRP) to the lender to write-down the interest rate to 1%.

Section 515: The Farmer's Home Administration (FmHA - now Rural Development) had a direct mortgage program similar to Section 236 in its terms. Loans were for 40 years, many of which were prepayable in 20 years, with an interest rate of 1%. All of the projects have either Section 8 or Rental Assistance.

Rental Assistance: This is Rural Development's equivalent of Section 8 in that tenants pay 30% of their income for rent. It is project-based but is only available along with the mortgage program. Most contracts are for 20 years.

Explanation of category divisions: One potentially confusing issue in looking at these numbers is that some projects have both rental assistance (Section 8 or RD Rental Assistance) and assisted mortgages (Section 236, 221(d)(3), or Section 515), some have only Section 8, and some have only assisted mortgages. The categories above the "Total Federally Assisted Units" count these all separately with no overlap.

Below this, there are totals for all Section 8 units (with and without assisted mortgages), all Section 236/221(d)(3) mortgages (with and without Section 8), and all Section 515 mortgages (with and without Section 8 or Rental Assistance). These numbers do overlap.

RISK ASSESSMENT

CHPC has analyzed all of the projects in the database and assigned a level of risk to each one. Risk is the likelihood that the projects will either terminate ("opt-out") of their Section 8 contracts or prepay the mortgage (at the 20-year mark or later), thus terminating the rental restrictions that keep the project affordable to low-income tenants.

The **risk categories** are as follows:

Opted Out/Prepaid: The projects with a date in this column have already prepaid their HUD loans or terminated their Section 8 contracts. Generally, the prepayment or opt-out eliminates the HUD rent restrictions. Upon prepayment or opt-out, tenants receive tenant-based Section 8 vouchers for one year, subject to annual renewals by Congress. These projects may be lost to the housing stock as affordable housing.

Previously Preserved: Projects that received incentives under the earlier federal preservation programs were required to extend the period of low-income use. Under Title II (also known as ELIHPA), which existed between 1988 and 1991, the term of affordability was extended 20 years. Under Title VI (also known as LIHPRHA) the term of affordability was extended 50 years. Although these projects were considered to be safely preserved, many Title II projects are now coming back to be restructured, as they can have as little as seven or eight years of affordability remaining.

Preservation Acquisition: Several projects have been purchased from owners and restructured with new financing that contains rental restrictions. While these units have not been lost to the housing stock as affordable housing, the new restrictions are generally at a higher rent level than the initial restrictions. Over time, these units may not be affordable to as low an income group as they were initially.

Lower Risk – Nonprofit: Non-profit owners have a public purpose to develop and own affordable housing. They have little incentive to remove current rental restrictions by terminating their Section 8 contracts or prepaying their mortgages, although they are eligible to do so. Some owners may prepay their mortgages in order to bring new capital into their projects. They are, however, less likely to opt-out of their Section 8 contracts.

Lower Risk – Post-2006 Expiration: Section 8 contracts cannot be terminated until they expire. Owners of Section 8 projects whose contracts do not expire for five years or more are generally not likely to be considering prepayment or a sale. Therefore, we consider projects with post-2006 expiration dates to be at lower risk of terminating restrictions and converting to market.

At Risk: All other projects are considered at risk.

BY YEAR ANALYSIS

Section 8 Expirations by Year: Original Section 8 contracts were for long terms (typically 20 years) and had an expiration date. This section indicates the original expiration date of the project based Section 8 contracts. Most contracts that have expired are now on annual renewals. Some have been renewed for longer (5, 10, and 20-year) terms, but are still subject to annual appropriations by Congress.

Section 8 Opt-Outs by Year: Any Section 8 contract which has been terminated is shown here with the opt-out date. Project-based Section 8 contracts were first eligible to be terminated in 1997. If a project also has an assisted mortgage, it is still counted in this section, so there is overlap with the "Mortgages Prepaid by Year."

Mortgages Prepaid by Year: The Section 236 and 22(d)(3) mortgages were first eligible for prepayment beginning in 1996. Prior to that time, many projects were restructured under Title II (ELIHPA) and Title VI (LIHPRHA). This section shows the number prepaid in each year since then. If a project also has Section 8, it is still counted in this section, so there is overlap with the "Section 8 Opt-Outs by Year."

Please feel free to call Janet Falk, Executive Director, at 415-433-6804 if you have questions.